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Select committee on consumer credit
Hearings

SELECT COMMITTEE ON CONSUMER CREDIT

Proceedings of Hearings held at the
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SELECT COMMITTEE ON CONSUMER CREDIT

of the

ONTARIO LEGISLATURE

July 27, 1964

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THE CHAIRMAN: Mr. George Bukator, Mr. Fred Edwards, Mr. George Hamilton, Mr. George Kerr, Mr. Allan Lawrence, Mr. Lloyd Letherby, Mr. D. C. MacDonald, Mr. Farquar Oliver, Mr. Leonard Reilly, Mr. R. D. Rowe,Mr. Ross Whicher and Mr. John White; those are the members of the Committee. Mr. MacDonald coming in now.

Ladies and gentlemen, this is the first meeting of the Consumer Credit Committee to be held since the presentation of the interim report to the Legislature last session. The Prime Minister and the Legislature has seen fit to reappoint the Committee with some additional members to continue the valuable work which we commenced just a year ago.

I particularly want to welcome the new members to the Committee who are attending their first meeting this afternoon. I am sure their experience and ability will add great strength to the Committee.

We also have with us this afternoon Mr. Douglas Irwin, B.A.C.A., our consultant and Mr. Joseph Sedgwick, Q.C., our Counsel. In addition we have with us Mr. Harper Stone, who is well known to all the members of the Committee as he has taken part in Committee meetings of the Legislature for many years, and he is representing Mr. Thomas Harcourt, the Secretary of the Committee, who is presently on holidays.

Having a quorum, we will now commence

with the meeting and the first gentleman we will hear from is Mr. J. A. Tuck, who is representing, with other representatives, the Canadian Life Insurance Officers Association. I would ask Mr. Tuck to introduce the other gentlemen who are accompanying him here today.

MR. TUCK: Mr. Chairman and honourable members, Mr. M. K. Kenny, President of Excelsior Life and First Vice-President of the Association will introduce the members of our group to you. I should first like to discuss with you, if I may, the procedure. You have invited the Association to appear and also five individual member companies. Is it your wish that the Association should make its presentation first?

THE CHAIRMAN: Yes, we have the Association's brief on our agenda to lead off. If you would care to have Mr. Kenny introduce the other gentlemen now, he can do so and then we will proceed with the brief from the Association.

MR. TUCK: And then follow on with the individual companies?

THE CHAIRMAN: It is my understanding that London Life is going to follow on after the Association.

MR. TUCK: Well, that fits in with our thinking. We have two member companies represented here today from out of town, the London and the Mutual. If it is agreeable with the other companies that they should follow on after the Association --

THE CHAIRMAN: That's quite agreeable.

MR. TUCK: -- in that order. Well then, Mr. Kenny with introduce our people to you. Thank you.

THE CHAIRMAN: Thank you, Mr. Tuck.

MR. KENNY: Mr. Chairman and gentlemen of the Committee. It is a pleasure for representatives of our member companies which you have selected to invite to appear before you and to give you any information that we can on this subject of mortgage loans and more particularly today, policy loans.

I would like to introduce to you, if I may, the members of this rather large and, I can assure you, technically competent group, who will be available for any answers you may require.

Mr. Tuck, of course, most of you know -- you, sir, and Mr. Sedgwick and others. Mr. Frank Finnick, the Secretary of the Canadian Life Insurance Officers Association; Mr. T. D. Kent, our legal assistant of the Association;and then from the various companies -- if I may introduce them by company -- from the Canada Life Mr. F. W. T. Irwin, Executive Assistant, who I think perhaps has been introduced to you before at previous meetings; Mr. J. H. Wainwright, the Associate Secretary and Claims Officer; Mr. D. E. Shaver, Superintendent of Mortgage Investments; then from the Empire Life Mr. J. M. McGillis, the Manager of the Investment Department; from our own company, the Excelsior Life, Mr. A. D. Carnegie, our President, Mr. D. R. Culver, our

Vice-President and Actuary, who is the Chairman of the Special Committee of the Life Officer's Association in preparing the brief and making the proposals on policy loans. Mr. J. McCready, Mortgage Manager for Excelsior Life.

Then from the London Life Mr. J.C.A. McDonald, Executive Assistant of the Secretary's Office. Mr. J. A. Milliman, Mortgage Executor.

From the Mutual Life of Canada in Waterloo Mr. D. L. Fox, Assistant Secretary and Mr. D. A. Rogers, Associate Secretary and Legal Officer.

That, sir, constitutes our delegates who appear before you today and I think I'll ask Mr. Tuck to produce the -- read the brief.

THE CHAIRMAN: Thank you very much, Mr. Kenny.

MR. TUCK: Is it all right if I sit down, Mr. Chairman?

THE CHAIRMAN: You can stand or sit down, whichever you prefer.

MR. TUCK: Do all members of the Committee have copies of the brief? It's not a long one. It is your wish I should read it?

THE CHAIRMAN: Yes, if you would do that.

MR. TUCK: I'm in your hands as to whether you wish to direct questions to us as we go along or at the end.

THE CHAIRMAN: Following your brief I think would be the best time. Then we will ask Mr.

Sedgwick or Mr. Irwin if they have any questions and then some of the members of the Committee may have individual questions they wish to ask as well.

MR. TUCK: The Association is a voluntary organization of 100 companies in the life insurance business in Canada. As of November of last year, 89 of these companies were licensed to transact business in Ontario. Forty-four have their head offices or chief offices for Canada in Ontario.

A great deal of statistical information on the operation of member companies in Canada and Ontario is given in Canadian Life Insurance Facts 1963. (This little booklet you have -- and rather than duplicate a lot of these facts in our submission, we have attached it to the submission). Of course if there is any other information you require we shall be pleased to supply it.

First of all on mortgage loans. The Association does not serve its member companies in the mortgage loan field. Twenty-five of our members are members of the Dominion Mortgage and Investment Association which functions in this area. Representatives of that Association appeared before you a year ago and we have nothing to add to the information they supplied to you. All five member companies individually invited to appear before you are members of that Association and their mortgage loan practices are in line with those set out in the brief submitted by the Dominion Mortgage Association. However, one of the companies would like to present further information

than that given in the Dominion Mortgage brief on mortgage loan practices and will have something further to say on the subject following our presentation as well as enlarging on our brief on policy loans.

Life insurance companies are empowered by the insurance statutes to invest in policy loans. At the end of 1962 policy loans in Canada of federally registered companies amounted to $372 million. By the end of 1963 this figure had risen to $385 million, which was 5.2% of total reserves. The policy loans of provincial companies in Canada were approximately $16 million at the end of 1963.

In level premium life insurance the premium is set for the term of the contract even though the cost of the protection increases year by year. Thus a reserve is accumulated by the insurer in the early years of the policy from that portion of the premiums not required to provide for the cost of protection for those years. This reserve is invested by the insurer. It provides a fund which, with interest earnings, reduces the amount at risk and enables the insurer to meet the increased cost of protection in later years. The reserve on a policy provides the basis on which the cash value may be computed. All policies having a cash value provide that the owner may borrow from the insurer on the security of the cash value. The contractual right to obtain a loan is a continuing right which is available at any time that the policy has a cash value. Generally, the amount of the loan may not exceed a figure which ranges between 90% and

95% of the cash value. The maximum rate of interest chargeable is also set out in the policy.

A substantial portion of the total policy loans outstanding are automatic premium loans. The automatic premium loan provision is a valuable safeguard for the policyholder under which a premium in default is advanced as a loan on the security of the cash value of the policy. This ensures that the protection afforded by the policy will remain in force even though a premium payment may be omitted because of oversight or temporary adversity. The provision will continue to operate so long as any cash value remains in the policy.

The right to obtain a policy loan is a contractual right. It is not necessary for the applicant to establish a credit rating nor does the rate of interest he is charged vary according to his circumstances or the size of the loan.

There is no obligation on the borrower to repay the loan either in whole or in part. Nor is there an obligation to pay outstanding interest on the loan. The loan may be repaid at any time and without any penalty. On the other hand, insurers encourage the repayment of policy loans by accepting partial repayments, even in small amounts. Any outstanding loan at the time a policy matures is deducted from the proceeds otherwise available.

We wish to stress that there are no extra costs, service fees or hidden charges in connection with policy loans. The applicant receives exactly the amount

of the loan and the only cost is the interest. This is charged on a day-to-day basis and it is, therefore, a simple matter at any time to determine the amount required to discharge the loan.

Currently, interest on policy loans is being charged by most companies at the rate of 6% per annum; some are charging 5½% and some 5%. Six persent is the maximum rate chargeable for these loans by virtue of an undertaking given by the members of the Association to the Prime Minister of Canada in 1935 and communicated by him to the House of Commons. The undertaking was that interest on new and existing loans chargeable after January 1, 1936, would not exceed 6% in arrears. The Department of Insurance at Ottawa considers that this undertaking is still binding on those companies that give it and on all companies that subsequently became registered with the Department.

The size of the average policy loan is small and consequently the insurer's administrative costs are higher than for most other forms of investment. Necessary administrative details consist of computation of loan values, granting the loan, recording the transaction, calculating interest due on the loan, preparing interest notices, handling interest payments and repayments of principal, and keeping accounts required for annual statement purposes. It is also necessary in the case of automatic premium loans to determine the values remaining in the policy, to calculate lapse dates and to prepare lapse notices.

Because of these costs the net return to the insurer is less than the rate charged for the loan. At the present time policy loans are netting a lower rate of return than the average of the total investment portfolio of most companies. They are, therefore, regarded more as a service to policyholders than as an investment.

Thank you, Mr. Chairman.

THE CHAIRMAN: Mr. Sedgwick, do you have any questions?

MR. SEDGWICK: I have no questions. I just want to clarify two things. Firstly, your Association as such has nothing at all to do with the mortgage loan business of your individual companies, is that correct?

MR. TUCK: That is right, Mr. Sedgwick.

MR. SEDGWICK: And then as to your statement as to policy loans, do I take it that you charge nothing but interest. There is no fee of any kind charged to the borrower?

MR. TUCK: That is correct, Mr. Sedgwick.

MR. SEDGWICK: Merely interest. The interest accumulates and in the event of maturity of the policy the loan and interest outstanding is deducted from the amount payable. Is that right?

MR. TUCK: That is correct.

MR. SEDGWICK: That's all I wanted to make clear. Thanks very much.

THE CHAIRMAN: Mr. Irwin, do you have

any questions?

MR. IRWIN: None pertaining to the Association.

THE CHAIRMAN: All right, then we will start and just go around the table. Mr. Whicher do you have any questions?

MR. WHICHER: No, thank you.

THE CHAIRMAN: Mr. Bukator? Mr. Lawrence? Mr. MacDonald? Mr. Oliver? Mr. White?

MR. WHITE: I would like to ask for clarification of the third last sentence on page 4 -- "Because of these costs the net return to the insurer is less than the rate charged for the loan".

MR. TUCK: The contractual arrangement, let us say of 6% -- the administration costs might be of the order of .7 or .8%. The net return is therefore 5.2 or 5.3. Under today's conditions this is less than the companies are earning on their total portfolios. The net return from the interest on policy loans is less than the net return from all their investments -- their total investments.

MR. WHITE: Thank you.

THE CHAIRMAN: Mr. Reilly?

MR. REILLY: I'm happy.

THE CHAIRMAN: Mr. Roe? Mr. Letherby? Mr. Kerr, do you have any questions you wish to ask the speaker?

Is there anything you wish to add to your brief by way of a statement to the Committee?

MR. TUCK: No, I don't think so.

THE CHAIRMAN: It would appear that only a small percentage of the policy holders do make a loan against their policies. Is that correct?

MR. TUCK: Yes, a small percentage.

THE CHAIRMAN: Do you have any idea why these loans are made?

MR. TUCK: Well, as we stated here, a very large percentage of them are automatic premium loans which are made under the policy to pay premiums. The others are made for an infinite variety of reasons that people wish to borrow money.

THE CHAIRMAN: And as a company you are not particularly concerned with the reasons they are borrowing money?

MR. TUCK: No, we are not, sir. It is the contractual right of the policy holder. We are anxious to see them repay them to keep the policy -- to restore the policy to good standing.

THE CHAIRMAN: Could you give us an idea of how many policies that are loaned upon are put back into -- the loan repaid and the policy reinstated?

MR. TUCK: I don't think so but I would like to ask Mr. Dimicrat and also -- whether there are any figures on the number of policy loans.

MR. DIMICRAT: Mr. Chairman,I know of no figures available on the number of policy holders. I think as far as the amounts repaid, there are some figures in the narrative of this fact book of which you all possess a copy, on page 22. Of the policy loans

repaid since 1950, 10% of the amount repaid was on death or maturity of the policy; 39% by surrender of the policy and 51% during the lifetime of the policy.

MR. TUCK: Mr. Chairman, I might volunteer one small bit of information. We have at the present time 139,000 individual policies in force. On those policies -- 18% of those policies have loans against them. I think ours, perhaps, is an average experience in that field.

MR. MACDONALD: How much of that 18%, Mr. Chairman, would be for mortgages?

MR. TUCK: There would be no (rest inaudible)

MR. SEDGWICK: Mr. Kenny, I am referring now to what Mr. Price said, as the right to a loan is a contractual right, I take it you do not enquire why the man wants the money, is that right?

MR. KENNY: There are no questions asked, no.

MR. SEDGWICK: I have a reserve of a thousand and I want to borrow seven hundred or eight hundred, whatever it may be?

MR. KENNY: The usual procedure is he either asks the company, what is the current value in money, or how much can I borrow, then he will either borrow the maximum or perhaps a lesser amount.

MR. WHICHER: Giving no reason whatsoever?

MR. KENNY: No reason whatsoever.

MR. SEDGWICK: That was my understanding.

MR. KENNY: Mr. Chairman, I should have said that I was speaking with a lack of information for all companies on an Association basis, and so is Mr. Dimicrat. I think you will find some of the other companies here individually have pleasures when you come to them to discuss their presentation.

MR. MACDONALD: Does it appear from your experience in this situation that more policy holders are borrowing against their policies today as opposed to, say, five years ago?

MR. TUCK: No. I think perhaps less. The table on page 22 of the fact book shows decreasing ratio of policy loans to reserves in almost every year since 1935. Now these aren't numbers, these are amounts of loan.

MR. SEDGWICK: It's the percentage of the amount of available reserve, is that right?

MR. TUCK: Yes. That's been going down quite consistently. 5.4 in '62 seems to be the low figure.

MR. MACDONALD: Mr. Chairman, may I ask what is your suggestion as the reason for this? Are they finding money elsewhere -- other sources -- or what?

MR. TUCK: Yes and perhaps relatively good times is --

MR. MACDONALD: Well, Mr. Chairman, I think the amount of monies on the board -- the figures have gone off at times -- but it appears to be

going up and up.

MR. TUCK: That's true.

MR. MACDONALD: That seems to go up with good times, therefore presumably yours would go up with good times to. People are willing to expand a bit.

MR. TUCK: I don't think one is parallel to the other, Mr. MacDonald. I think most people -- apparently most people are reluctant to borrow on their life insurance if they can get by without it. In many cases getting by without it includes going elsewhere for financing.

MR. SEDGWICK: They regard it as sort of a sacred trust and they don't want to impair its value?

MR. TUCK: Yes, some thing of that nature.

MR. WHICHER: We will know in a few years whether that is so. As you are aware from action taken by this legislature a couple of years ago on new insurance the preferred beneficiary trust doesn't apply, so a man can borrow without telling his wife.

MR. SEDGWICK: He cannot, though, when there is a preferred beneficiary, isn't that right?

MR. TUCK: On new ones from July 1, 1962 he can. Prior to that he could not.

MR. SEDGWICK: If what Mr. MacDonald says is true he has to consult no one but the wife or preferred beneficiary.

MR. TUCK: Yes. It will be some years before we know whether that has any effect on the ratio of loans.

THE CHAIRMAN: Mr. Irwin?

MR. IRWIN: I was interested in the arrangement whereby there appears to be a gentlemen's agreement between the government of Canada and the registered life insurance companies in regard to the rate charged on policy loans. Is that the only restriction?

MR. TUCK: Yes. This is a very unique thing, Mr. Irwin. I can't recall a parallel to this situation. Apparently around this time there was great agitation in Parliament about various interest rates. I think the bank interest rate was under discussion and some discussion about the policy of loan interest rate too. I think at that time some companies probably were charging more than 6, but most of them would be 6 or less. It was before my time with the Association but my recollection is that the Superintendent of Insurance took the initiative. He said that he didn't think there was any need of legislation on this point, that it might freeze it in a slot that later conditions wouldn't justify and he undertook to approach the companies and see if they wouldn't give this undertaking to the Prime Minister, and it was done.

MR. IRWIN: Is there any likelihood of a great change in the agreement?

MR. TUCK: I would think -- I can see

circumstances where it might be, yes. If interest rates climbed higher than they are now and if other financial institutions were charging more, I could see the companies going to the government and saying well, that undertaking was all very well back in 1935 and it was even all right up to 1960X, but not now. We are at the point now where are net return on policy loans is way lower than our general returns and we would like to be relieved of the undertaking. I don't know what the government would say to them but I can see that development occurring.

MR. IRWIN: I wonder if you -- some of the others have said here -- there doesn't appear to have been a great increase in the borrowing as far as policy loans are concerned on the part of policy holders and yet the rate by general agreement is fixed, there is no other charges, one would rather expect that in view of the higher rates that they have to pay elsewhere for borrowing that there might just be a run on (rest inaudible). Supposing that were to happen. Would the life companies do this? I mean, for example, supposing the rate of borrowing in ratio to the total cash value were very high, would this not be the probability of a great many cancellations?

MR. TUCK: Yes. I think the companies would view a substantial increase with considerable alarm, and take steps to stop it. They could, by raising the rates, for example. Yes, because they couldn't alter the contract, they couldn't raise

the rate for old policies, you realize that. They couldn't raise it for the old policies.

MR. MACDONALD: In that connection, Mr. Chairman, may I ask how much below your general return?

MR. TUCK: We have no industry average on this, Mr. MacDonald. The companies that are here individually could tell you, but I think that the spread might be as much as a half of one percent. Is that anywhere near it, do you think?

MR. MACDONALD: In other words your net on policy loans might be 5.2 but your net on your other assets might be 5.7?

MR. SEDGWICK: In any event, Mr. Tuck, it's considerably below the current mortgage rates, isn't it?

MR. TUCK: Yes, it is, Mr. Sedgwick.

MR. WHICHER: There is really a big difference because they are actually borrowing their own money.

MR. MACDONALD: So that is built up from premiums you pay yourself -- it's your own money?

MR. WHICHER: You could get that money tomorrow.

MR. MACDONALD: You could get that money tomorrow by surrendering the policy?

MR. WHICHER: So if the rate was 8%, for example, the chances are there would be cancellations --

MR. MACDONALD: There might be a lot

of cancellations.

MR. WHICHER: This raises an interesting question in respect to rate, at any rate, following along with what the last Committee member said. One of the concepts that has arisen in our discussions at various times is the concept of pure interest. Would you say that this is pretty close to pure interest?

MR. TUCK: Well, I might have at one time, but I pread the proceedings of the House of Commons -- one of the House of Commons Committees a few years ago on -- which contained arguments about what is true interest, the way you calculate it, and I since decline to classify myself as an expert on that one. I think that this is interest in arrears calculated on a day-by-day basis. It would be like simple interest in arrears.

MR. WHICHER: Well, I had in mind the fact that you have absolute security.

MR. TUCK: Oh yes, we have absolute security.

MR. WHICHER: Whatever you charge is as close to just pure interest as you can possibly get, probably. For instance, finance companies claim that what they charge includes an administrative fee and other things, the chance of risk, and so on.

MR. TUCK: Ours doesn't include a risk factor but it does include, of course, the administration fee. It's pretty close to a government bond, really, as far as risk is concerned.

MR. SEDGWICK: Your net yield is about the yield of a good government bond?

MR. TUCK: Yes, pretty close.

MR. SEDGWICK: Less you administrative costs.

MR.TUCK: Pretty close, but not as much as we are getting on mortgages or corporate bonds.

MR. MACDONALD: When was the Association formed?

MR. TUCK: 1894.

THE CHAIRMAN: And you do represent the majority of life insurance companies in Canada?

MR. TUCK: Virtually all of them, Mr. Chairman.

THE CHAIRMAN: I see. Thank you. I presume some companies, some of the smaller companies, do not belong to your Association? Is that true?

MR. TUCK: Yes, there are -- Oh, I think there might be four or five small Canadian companies that do not belong and there are maybe seven or eight non-resident companies with very small business income that don't belong. Am I anywhere close on those figures?

MR. KENNY: Another way of putting it, Mr. Chairman, might be to say that 99% of premium income in Canada is represented by the Association.

THE CHAIRMAN: How do you base your fees to various member companies?

MR. TUCK: The fees are a flat amount for a member company of $100.00 and the balance of our

expenses are assessed year by year on the basis of premium income.

THE CHAIRMAN: And what service do you provide to the public as an Association?

MR. TUCK: We act as an information centre to the public. We are constantly requested for information of the type that's in the fact book -- in fact that's why we started publishing this -- to save ourselves work in answering questions. Also as a point of contact for governments with the companies. The individual policy -- we have no relation at all with individual policy holders as far as their contracts with companies.

THE CHAIRMAN: Do you have a booklet on policy loans, for example?

MR. TUCK: No, we do not.

THE CHAIRMAN: I presume then you don't get very many enquiries about that matter? People don't write to you in the Association asking for information about policy loans?

MR. TUCK: No, I don't ever recall --

MR. IRWIN: Do you exercise any discipline?

MR. TUCK: We have no legislative authority over our companies, no. It's a voluntary Association.

MR. KENNY: Our Executive Committee, on which each company is represented, does make recommendations to the companies, but whether companies follow them or not, it's their own choosing.

THE CHAIRMAN: You are a disciplinary body?

MR. KENNY: No, we are not.

THE CHAIRMAN: John, any further questions?

MR. REILLY: I was wondering, Mr. Chairman, if there were any American companies that are represented in your Association?

MR. TUCK: Oh yes, Mr. Reilly, about thirty. These go all the way from American companies with very substantial business in Canada to some with very normal amounts of business in Canada.

MR. REILLY: American companies have policy loan --

MR. TUCK: Oh yes, they all have policy loan provisions, contracts.

MR. REILLY: Are there any -- in your policies -- are there any so-called statutory conditions?

MR. TUCK: No, sir. Life insurance contracts are regulated by the insurance Acts. Insurance Acts do not prescribe statutory conditions as they do for fire, automobile, and other loss. They do contain rules though that have similar effect. For instance they contain provisions for grace periods. Now these provisions in the law of Ontario will override any contractual provisions on grace periods. At least they will require that grace go as far as the statutes say. But there is no requirement in the Ontario Insurance Act that the grace provision of a policy must

be written in such and such a way.

THE CHAIRMAN: Any other questions?

MR. REILLY: I was wondering, Mr. Chairman, if Mr. Tuck would tell us whether the different associations and different insurance companies within the organization attempt to have a uniform rate for coverage purposes?

MR. TUCK: No, sir.

THE CHAIRMAN: Any more questions, gentlemen?

I would like to thank Mr. Tuck on behalf of the Committee for the work your Association has put into the brief which you have so ably presented to us today. We have been negotiating with you for some time to appear but we have never been able to just arrange a time that was suitable until now, and we have had to defer meetings and we apologize for any delay which we may have caused you or the Association. Before you go we might just ask you if you have any information you might like to give the Committee, which you think might be useful to us in this whole subject of consumer credit.

MR. TUCK: No, I don't think we have. It's a vexing problem, we are aware from newspaper reports of your proceedings and some of the proceedings that we have looked at ourselves. It's an extremely difficult matter. I don't think we would wish to attempt to offer any solutions. We wish you well on your undertaking.

MR. REILLY: Before Mr. Tuck leaves,

Mr. Chairman, I understand from this brief that as far as the interest rate on policy loans is concerned, it is as low as 5, $5\frac{1}{2}$, but never exceeds 6. Is this right?

MR. TUCK: That's right.

MR. REILLY: Fine.

THE CHAIRMAN: It would be an awfully nice thing to tell the public about, you know. There's a good source of revenue there and people don't know it.

MR. TUCK: Thank you very much, Mr. Chairman.

MR. IRWIN: Could I take advantage of this to see if any other representatives of our group would like to add anything?

In view of what you said, Mr. Tuck, taking it in total, life companies are not in a position such as a bank or finance company where they could and will expand the amount of credit available for loaning purposes. You are pretty much -- in fact entirely -- restricted to the cash flow from premium income as to what you can then do in the way of loaning out?

MR. TUCK: We certainly couldn't loan beyond our assets.

MR.REILLY: Neither could a bank.

MR. IRWIN: Well, all right, maybe. But, in other words, you couldn't at will influence the volume of money available for lending purposes. For example, take a finance company. The finance

company can borrow from a bank and then add a million on one side and a million on the other side and so on and so on and so on. But you can't do that?

MR. TUCK: Well, we have no power to borrow money from other institutions. We are on the other side of it.

THE CHAIRMAN: Do you have anyone with you that would care to comment on the life insurance investment in government bonds, for example?

MR. TUCK: There is information in here about our government bond investments. Is this what you mean?

THE CHAIRMAN: Yes, I am wondering what your companies might have invested, say, in our own bonds?

MR. TUCK: Well, government bonds -- page 23 shows our total assets year by year and in bonds and debentures, 4 billion 345 at the end of '62 and then down at the bottom there is a breakdown which shows that in '62, of that 4 billion, 917 were in Provincial bonds.

MR. KENNY: We do have the figure for the end of '62 for Ontario alone. I haven't it with me but it is available, if you want it.

THE CHAIRMAN: We would be pleased if you would send it to the Secretary of the Committee.

MR. KENNY: All right. I think these fellows will repeat a lot more.

THE CHAIRMAN: Well, if that's all,

thank you very much.

We will now ask Mr. J. C. A. Macdonald of the London Life Insurance Company to please come forward.

We will just wait until we get these distributed to the members of the Committee. Do all the members of the Committee have a copy of Mr. Macdonald's brief?

Would you proceed then, Mr. Macdonald?

MR. MACDONALD: As you all note, from page 1, Mr. Millman, Mortgage Executive of the London Life, and myself are presenting a joint brief on policy loans and mortgages.

The London Life Insurance Company was founded in London, Canada in 1974. The Company operates only in Canada and maintains over 100 service centres across the country. There are over 1,800 men in the sales force, 650 staff in brnach offices and 1,700 employees in the head office. The Company has over 7 billions of life insurance in force and now serves more than 1½ million Canadians. As at December 31, 1963 our invested assets in our Life Branch totalled $997,800,000.

At the invitation of your Committee, we are glad to furnish information in respect to both our policy loan and mortgage lending costs and practices.

Policy loans are available to all policy owners on demand up to the extent of the cash value of the policy discounted to the date of loan.

Such loans are repayable at any time subject only to a minimum cash repayment of $10. The policy loan provision is a valuable privilege in times of individual emergency, especially the automatic premium loan provision which assures that the policy will remain in force as described in the Canadian Life Insurance Officers Association brief. Fifty-three percent of new loans advanced in 1963 were premium loans while at December 31, 1963 only 19% of loans outstanding were premium loans, the other 81% being cash loans.

Simple interest is charged on outstanding loan balances and is capitalized only on the policy anniversaries. There are no additional charges to borrowers, either when loans are made or upon repayment of them. Borrowers are not required to set up repayment programs although they are encouraged to do so in order that the full face value of their policies may be restored and terminations frequently associated with maximum loans may be avoided. (Appendix I illustrates how interest is calculated and how a repayment program works on a policy loan.)

While there is no investment risk connected with policy loans, the option of the policy owner to borrow or repay at any time can have an adverse effect on the Company, as borrowings are often heavier when other forms of investment are most attractive, and repayments increase when general rates are low. During the depression of the 1930's policy loans increased very rapidly and in the case of our own

Company were in excess of 14% of invested assets. Over the past fifteen years the total of such loans relative to assets has remained remarkably stable at between 5% and 6%. (See Appendix II for percentage of policy loans to total invested assets during the last thirty-five years.)

It is a fallacy, of course, to claim that a policy owner is borrowing "his own money" and should not be required to pay interest on it. Such money could otherwise be invested elsewhere if not invested in policy loans, and only becomes "his own money" when the policy is surrendered for its net cash value.

Prior to 1935, most companies stipulated a maximum policy loan rate of 7% in policy contracts. In our own case, interest rates varied from 6% to 7% depending on the size of the loan. In 1935 when general interest rates had declined to fairly low levels, federally licensed companies agreed to limit the rate to 6% and policy contracts since have provided for this maximum. During World War II, when government bond rates declined to still lower levels, London Life foluntarily reduced the rate actually charged on both new and existing loans to 5% in 1944. Subsequently, the loan rate was raised to 5½% in 1953 and to 6% in 1957 as other interest rates rose to more normal levels.

As at December 31, 1963 our policy loans outstanding totalled $50,965,000. The average policy loan represents a relatively modest amount.

Approximately 69,000 loans were on Regular Ordinary policies with average loan size of $441, and on an estimated 127,000 loans on "debit" policies (where premiums are normally collected at the home) the average loan size is $162. The overall average loan is $261. Less than 15% of all Regular Ordinary and "debit" policies have a loan on them.

Overall policy loan costs in the London Life were of the order of .80% of mean policy loan assets in 1963. (Sources of expense are set out in Appendix III.) With a gross rate of 5.99% and expenses of .80%, the effective net rate in 1963 was 5.19% which compares with a net rate of 5.54% earned on the total invested assets of the Company in 1963, and a net rate of well over 6% on new investments in that year.

If the ceiling of 6% on bank lending rates should be removed as recommended by the Royal Commission on Banking and Finance, it would seem logical to raise the maximum rate on policy loans to, say, 7% although this higher rate would not necessarily be charged in the future and, of course, the 6% ceiling would continue to apply in respect to all policies issued from 1936 to the present. Many policy owners actually borrow from other sources (largely banks) by a temporary assignment of their policies, and if the banks should be permitted to and actually did institute a lending rate in excess of 6%, it is conceivable that direct borrowing from insurance companies would increase substantially.

I would be glad to try and answer any questions.

THE CHAIRMAN: Carry on.

MR. MACDONALD: All right. Perhaps Mr. Millman would care to read the mortgage section.

THE CHAIRMAN: Who is going to carry on?

MR. MACDONALD: Mr. Millman, our Mortgage Executive.

THE CHAIRMAN: Do you wish to ask a question? Carry on.

MR. REILLY: Yes. Pertaining to the last sentence, if you would explain -- that if the bank rates were to increase in excess of 6%, it is conceivable that direct borrowing from insurance companies would increase. If you were going to increase your rates why would it be your loans would increase?

MR. MACDONALD: The implication here is if we didn't increase our rates and also all policies dated from '36 to '64 now would remain the same so even if we did increase our rates there would be quite a period before the new rate would take --

MR. SEDGWICK: Not only existing loans but existing policies, isn't that right?

MR. MACDONALD: That's right, yes, existing policies.

MR. SEDGWICK: So it would be some years before you could effectively raise your rate above 6%?

MR. MACDONALD: That is correct, sir. It would be two years before there is even a policy loan available.

MR. LAWRENCE: Your not surely putting yourselves on the same level or bracket as the banks as far as being able to charge the same amount of interest on a loan because -- is there a comparison, I mean is this a teaser you are tossing out to get a reaction? Because surely when there is no risk involved, as far as you people are concerned, you should not be allowed to charge the same as the banks. It has nothing to do with this legislature, of course, it's another jurisdiction, but --

MR. MACDONALD: I think probably it's the feeling that banks are charging presently a 6% rate, maybe it's a coincidence that the two rates are one and the same, and from our experience on the number of assigned policies, people tend to borrow from banks rather than from insurance companies.

MR. LAWRENCE: But here you are also saying that banks are able to increase their interest rates then why shouldn't you be allowed to. Isn't that the innuendo or impression you are leaving?

MR. WHITE: May I comment on this? As the brief says a lot of policies are assigned to banks and money borrowed against the cash surrender value, which I guess is the same as the loan value, so if the bank rate were permitted to go over the six while the life insurance were retricted to the 6% maximum, there would be a lot of people taking their

assigned policies from the bank and placing them with the insurance company and I frankly go along with it.

MR. LAWRENCE: This is collateral security though. Here, insurance is concerned.

MR. WHITE: Sure, it's collateral.

MR. LAWRENCE: It's collateral to your loan from the bank. In other words, it would be collateral for your loan from the bank that you would be assigning then.

MR. SEDGWICK: The bank would have the same perfect security as the insurance company.

MR. MACDONALD: Well, not necessarily. Sometimes they have a hard time collecting on some of the insurance policies.

MR. LAWRENCE: But in any event, here -- I can't see why your rate should be as high as the bank.

MR. MACDONALD: Well, there is another reason why we should have a higher rate and that is that the premium dollars are paid in to provide insurance at a certain rate. By allowing this policy loan, in our case to 15% of our policy holders, at a preferential rate, they are borrowing money which could be invested otherwise. And if it were invested otherwise, there would be a higher return to the other 85% of the policy holders. You are taking it from the majority of policy holders by giving a preferential policy loan rate.

MR. LAWRENCE: It's not preferential, it's in the contract. You commit yourself to do this

at the very beginning. If you don't want to loan on policies you don't have to. There is no law making you, is there? Making you loan on your contracts? Do you have to loan money on these things?

MR. SEDGWICK: It's an inducement.

MR. LAWRENCE: It's an inducement, yes, but is it a law?

MR. SEDGWICK: Tell me if I'm wrong, but if you write the policy -- I think this is so -- do you not stipulate that up to a certain figure, about 90% of the cash surrender value, the policy owner has a right to borrow?

MR. LAWRENCE: Yes, yes, but this is only a contract. There is no law that I know of.

MR. MACDONALD (NDP): The life insurance companies write this contract with the stipulation.

MR. MACDONALD (LONDON): That's right.

MR. MACDONALD (NDP): I'm curious to know why people go to the bank rather than borrow directly from the insurance company.

MR. IRWIN: (Inaudible)

MR. MACDONALD: Does a bank normally lend in excess of the cash surrender value? Is this the reason why they would go to the bank rather than come to you?

MR. MACDONALD (LONDON): Yes. But on the other hand the banks won't always loan on a policy while the insurance company itself would.

MR. MACDONALD: (NDP): I was going

to say, there are other things the bank would take into account that the insurance company wouldn't. They might not think you are a good risk --

MR. IRWIN: That's why they should get a higher rate of return than the insurance company does, because they have to take a larger risk.

MR.MACDONALD: I'm not entering the argument, I'm just explaining it.

THE CHAIRMAN: Mr. Tuck?

MR. TUCK: On the question of laws requiring policy loans in relation to the contract -- I think you are quite right, there is no law currently requiring it. There might be a move though to have such laws; certainly they exist in many states of the United States, insurers are required to have policy loans in the contracts. I think that the insurance supervisors of Canada might feel that they should recommend certain legislation here requiring it.

MR. SEDGWICK: Is it true, Mr. Tuck, that without exception the companies that are represented by your organization do lend on the cash surrender value?

MR. TUCK: That's right.

MR. LAWRENCE: Is it also true that your companies do not encourage these loans?

MR. TUCK: I think that's true in the sense that they don't push the matter. We do, though, point out to policy holders, and they point out to

policy holders that this is a policy provision that they might find of value under certain circumstances. Their agents push it. Yes, I think many of us push it.

THE CHAIRMAN: Yet a very small percentage of the policy owners seem to take advantage of it.

MR. TUCK: This is true, but I would like to get back to the fact that they aren't all aware of it. I think most of them make the (rest of sentence inaudible).

MR. IRWIN: Mr. Chairman, I'm still intrigued by this circumstance of the low rate of interest available to borrowers and yet only 15% of them -- supposing somehow or other people became acquainted with this possibility and you suddenly found your loans amounting to 30 or 40 or 50% of total cash surrender available, would you take any steps? Could you take any steps?

MR. MACDONALD (LONDON): I don't see how we could refuse. We can delay them on it on the basis that some companies do have a 60 day or 90 day clause in the policy that the loan can be delayed.

MR. IRWIN: (Inaudible)

MR. MACDONALD (NDP): Normally how long would it take from the time the policy holder applied until he sees the money?

MR. MACDONALD (LONDON): On an average loan the policy holder can apply at a branch office -- if it were in London, a phone call would be all

that was necessary -- he would go to the branch office and I would say probably a day or a day and a half.

MR. MACDONALD (NDP): He need not give any reasons?

MR. MACDONALD (LONDON): That's right. Say a normal size loan where there are no extenuating circumstances, the cheque will be prepared and the endorsement on the back also (next part of tape inaudible).

MR. CHAIRMAN: It shouldn't vary much even if the head office were located elsewhere?

MR. MACDONALD (LONDON): No. If there were an emergency they could call from the branch to the head office and obtain approval on the status of the borrower in a matter of hours.

THE CHAIRMAN: Any other questions?

MR. ROWE: (Inaudible)

MR. MACDONALD (LONDON): If they miss a payment they have 31 days to pay the money and if at the end of 60 days you still haven't made the payment the machinery is set up so that the premium loan is automatically set up and you will be charged interest on this loan from the end of the grace period of 31 days.

MR. ROWE: (Inaudible)

MR. MACDONALD (LONDON): This, of course, is geared to our new system, as the companies are doing with the electronic computer, where we are able to (   ) automatically at the end of the two month period.

MR. ROWE: (Inaudible)

MR. MACDONALD (LONDON): I've got some other figures. In '63 there were $16.9 million in loans made and of that group 7.9 were cash and 8.9 were premium. But before the end of the year, not necessarily in the same group, but 63% of the loans were repaid during that period and, although I haven't been able to check the figures out completely, I would imagine a good number are premium loans paid after this two month period.

MR. ROWE: (Inaudible)

MR. MACDONALD (LONDON): That was the understanding I had.

In the same year policies surrendered were 4,800,000 loans paid off.

THE CHAIRMAN: Any other questions?

A MEMBER: You say in 1963,63% of your policy loans were repaid?

MR. MACDONALD (LONDON): 63% policy loans meaning both cash loans and premium loans were repaid.

A MEMBER: Has this been consistent? Do you have a situation where you can tell by pattern or otherwise whether people are borrowing on their policies so the maximum amount of 99% or 95%, and are keeping their other insurance, both at the same time? In other words, indicating a certain insurance programme (rest of sentence inaudible)

MR. MACDONALD: (LONDON): I haven't any figures on that. Someone else may have. This

figure of 63% is all loans repaid last year. These were repaid prior to the policy maturing.

MR. REILLY: Would I conclude correctly then that most of your loans are collected in a year?

MR. MACDONALD (LONDON): I haven't the figures available. I could check on that.

MR. REILLY: What is the average term -- I mean loans on an insurance policy -- are they usually for no more than a year or two or three or do they run five or ten?

MR. MACDONALD:(LONDON): I'm sorry I haven't that.

MR. REILLY: Is there any limitation in the length of time for which you can borrow?

MR. MACDONALD (LONDON): No, as long as there is a cash value that exceeds the indebtedness you can borrow for any length of time you wish.

MR. MACDONALD (NDP): As long as you keep your interest payments up?

MR. MACDONALD: (LONDON): You aren't even required to pay the interest as long as the interest which is capitalized plus the loan does not exceed the cash value of the policy.

THE CHAIRMAN: Mr. Irwin would like to ask another question.

MR. IRWIN: The interest you referred to chargeable is simple interest charged annually, I believe?

MR. MACDONALD (LONDON): Yes, we refer to it as simple interest on a day-to-day basis which is capitalized on the unpaid balance of the loan at that time.

THE CHAIRMAN: Any other questions, gentlemen?

MR. REILLY: Mr. Chairman, about how much loan was established when someone is delinquent in his payments? Is this done by other companies, do you know? Is this pretty well what London Life -- is this done by London Life only? Are other companies adopting this automatic loan system?

MR. MACDONALD (LONDON): I can't speak for every company.

MR. MACDONALD (NDP): I think it's pretty universal.

THE CHAIRMAN: Anything else, gentlemen?

MR. MACDONALD (NDP): Mr. Chairman, may I ask, in the instance of your Company, what is your average investment return?

MR. MACDONALD (LONDON): The net average yield from invested assets last year was 5.54%.

MR. MACDONALD (NDP): What was the net yield on policy loans?

MR. MACDONALD (LONDON): 5.19%.

THE CHAIRMAN: The rest of the brief is devoted to mortgage lending, is that correct?

MR. MACDONALD: Yes.

THE CHAIRMAN: And we are going to hear from Mr. Millman. I think then we will take a five minute recess and then continue with Mr. Millman.

---SHORT RECESS

THE CHAIRMAN: We will now ask Mr. Millman to carry on with the part referring to mortgage lending.

MR. MILLMAN: The London Life is one of the largest mortgage lenders in Canada in respect to both annual new investment and total of mortgages outstanding. We have mortgage offices in most major cities from coast to coast and many of them serve other communities as well. At the end of 1963 our mortgage account stood at $691,000,000 comprising 62,360 individual accounts. In recent years we have generally been the largest lender under the National Housing Act apart from direct lending activities of Central Mortgage & Housing Corporation. Of our total year-end investment, $527,000,000 or more than three-quarters of the total represented N.H.A. insured mortgages and our Company's share of N.H.A. joint loans.

Our mortgage investment approximated 69% of invested assets. For comparative purposes, this figure was 65% in 1930 but declined to 16% in 1945. Since this latter year a substantial

proportion of Government of Canada bond issues which we purchased during the war period have been liquidated and largely re-invested in mortgages. As life insurance companies require a minimum of liquidity, we have found mortgages a highly desirable form of investment from the standpoint of net interest rate. There is, of course, virtually no prospect of associated capital gain and always the possibility of some losses, although the latter are minimized under N.H.A. lending.

Appendix IV attached to our brief outlines the extent of our actual cash advances in each of those ten years, our mean mortgage investment during each of those years, the year-end number of employees in our mortgage organization, administrative expenses, loan commissions and percentage of over-all investment expense related to the mean mortgage investment. You will notice that the latter has remained very constant at just under one-third of 1% for the past six years. This figure, of course, makes no provision for possible future losses, which have been negligible for 20 years or more but were quite substantial during the 1930's and even in the early 40's. There is presently evidence of an increasing number of foreclosures, particularly on N.H.A. loans, where many borrowers who experience financial difficulties can no longer market their property readily at a price sufficient to recover at least some part of their slim equity. Even though a large part, if not all, of the mortgage claim may

be recovered from CMHC, there are many additional costs in the administration of default cases which do not appear in the mortgage account.

We know our own lending costs are by no means typical of the lending institutions as a whole. In fact, we believe that they are below average and among the lowest of all institutional mortgage lends. You will notice there has been a slight change in the wording of that from what you have. That is in deference to you competitors. We didn't feel that we should be quite as strong as we were in that sentence. With a high percentage of N.H.A. loans, which are generally for a 25-30 year term with consequent very low principal repayments in the early years, and many large conventional loans to corporations, also for extended maturities, our over-all repayments in a given year relative to our total mortgage investment average about 5.5%. We understand many lenders doing largely or entirely conventional business have annual repayments amounting to double or more this amount, namely, 11-12% and in some cases even larger. These high repayment rates necessitate a much heavier volume of new business to achieve a desired year-to-year increase in mortgage portfolio and accordingly original acquisition costs must be amortized over a much shorter period.

In a company such as ours, where most of our mortgage lending channels through our own mortgage offices, expenses divide into three categories, naemly (1) servicing costs on existing loans; (2) our

own costs of securing business involving both local and head office appraisal, subsequent opening of accounts, periodic inspections and actual advances in the case of construction loans etc.; and (3) loan commissions to agents who in most cases bring the business to us.

Virtually all our loans are on a sinking fund basis involving equal monthly payments which include interest and some principal. With few exceptions we also collect one-twelfth of annual municipal taxes monthly and these taxes are then advanced by us when they fall due. On this basis our servicing costs are largely related to the number of loans on our books rather than the dollar volume. It is not possible to produce an exact figure, but we estimate that of 1963 total expenses, approximately $952,000 related to servicing existing loans. With a mean of 61,000 loans on the books, this represents a cost of $15.60 per loan. For comparative purposes, on recent block sales of mortgages by CMHC their charge is $2.75 per month per loan or $33.00 per annum where they are asked to retain the servicing. Our own costs represent around one-half of 1% annually on very small loans of about $3,000 but are a negligible item on very large loans of, say,$1,000,000 or more. With an average loan on our books of just about $11,000, the average cost on an annual basis was .144% of our mean investment in 1963.

Of the remaining .165% of mortgage expense in categories (2) and (3), our own company

expenses under (2) amounted to .13% and loan commissions under (3) to .035%. Both these costs, however, and particularly the latter, are more related to total volume of new money advanced, or what might be considered as acquisition expenses. On this basis, such expenses in 1963 were of the order of 1.10%, composed of .87% in category (2) and .23% in category (3). This latter figure was apparently abnormally low and in general ranges from .30 to .40, so that acquisition expense on average is probably of the order of $1\frac{1}{4}$%. With a rapidly increasing portfolio it is very difficult to determine the average term of a loan, but related to the original amount it would appear that it might be of the order of ten years in our own case and therefore acquisition cost might represent about one-eighth of 1% annually. For companies placing only conventional loans and with a much more rapid turnover, this cost might readily be of the order of one-quarter of 1% or more.

We hope this information on our own company's mortgage lending costs may be of some value to you. We do realize that your primary interest is in respect to possibly exorbitant costs by way of bonuses required from borrowers and other more or less hidden charges.

We have reviewed the brief of the Dominion Mortgage & Investments Association presented to you a year ago, as well as the following questioning and discussion. Certainly we operate within

the limits outlined by the Association in respect to conventional loans. Generally the only deductions from the face amount of the mortgage are solicitors' fees and disbursements and, in Ontario, the fees are not more than and in some instances less than the tariffs established in the individual counties. These costs are an out-of-pocket expense to us and as a matter of convenience are charged to the mortgage account as part of the total advance. The end result is exactly the same as it would be if we advanced the total loan to the borrower and required him to pay the solicitors' costs directly. Obviously these charges are in no sense a bonus.

It is not our normal procedure to charge any appraisal fee. We do this only in two communities, both of which are outside Ontario, and in which it is the standard practice of virtually all mortgage lenders. Elsewhere, including all of Ontario, we consider the cost of appraisals, almost all of which are made by our own salaried employees, as a normal part of our acquisition costs.

Where a surveyor's certificate is necessary the onus of obtaining it is placed on the borrower, since it is equally essential to him. It is our almost invariable practice to obtain credit reports on prospective borrowers, but this minor item is not charged to the mortgage account.

In only rare instances do we collect a "stand-by" or "holding" fee, and if our loan commitment, having been accepted, is eventually

processed the fee is refunded. We have had only one or two disillusioning experiences where a borrower, having accepted our offer and not having been charged a holding fee, many months later calmly informs us he has obtained his financing elsewhere. The practice of refunding any "holding" fee, even if eventual loan advances are postponed for a lengthy period, is much more generous than in the case of corporate bond issues where a holding fee without refund is frequently paid if actual delivery of the bonds is delayed for an extended period beyond the commitment date.

On conventional loans the only amount which is in the nature of a "bonus" is the collection of a charge when the borrower wishes to repay prior to the maturity date of the mortgage. As outlined in the Dominion Mortgage brief, this is a privilege under the Canada Interest Act of all individual borrowers at the end of five years regardless of the actual term of the loan. The stipulated bonus is the equivalent of three months' interest on the remaining balance of the loan. Loans to corporations sometimes specify repayment bonuses prior to maturity. With any substantial decline in going mortgage rates the stipulated bonuses may not adequately compensate for the future interest loss. In all cases where there appears a legitimate reason for requesting prepayment we endeavour to be reasonable in our requirements.

On loans made under the National Housing Act we are required by the Crown Corporation, Central Mortgage & Housing Corporation, which administers the Act,

to add certain additional charges. For each dwelling unit an application fee of $35.00 per unit, whether the loan is on a single dwelling, a duplex or a large apartment building, must be paid in cash by the borrower. While CMHC itself appraises and inspects all properties, many of the companies do so as well for their own satisfaction. Some lenders like ourselves make most of their construction advances on an "uninsured" basis, that is, the mortgage insurance does not become effective until the building is virtually completed. For all loans advanced in uninsured instalments, $9.00 of the $35.00 fee is remitted to the company. It should be recognized that as all N.H.A. loans are on new construction, at least three or four and sometimes many more inspections are required in addition to the original appraisal.

In addition to the basic N.H.A. loan there is charged to the mortgage account a mortgage insurance premium of 2% in the case of instalment loans for single swellings and owner-occupied suplexes, and $2\frac{1}{2}\%$ on instalment loans for other multiple-unit buildings. For completion loans the foregoing premiums are reduced by one-quarter of 1% to 1 3/4% and $2\frac{1}{4}\%$ respectively. This premium is passed on to CMHC except that the company retains one-quarter of 1% out of the 2% or $2\frac{1}{2}\%$ applicable to instalment loans as compensation for the additional risk. That's because of uninsured advances, the additional risk involved in insuring our own advances during construction.

It should be noted that the borrower

does not pay the insurance premium immediately, but it is an addition to his long-term liability.

Lenders under the National Housing Act are not permitted to discount the original loan in any way. The full amount of the loan must be advanced including, of course, authorized disbursements for out-of-pocket expenses. If the borrower should decide not to draw down the full loan, interest of course is charged only on the reduced amount. The lender may subsequently sell the mortgage to another party either at a premium or a discount, but this in no way affects the borrower.

We hope we have amply described our own company's mortgage lending practices, but we are very willing to answer to the best of our ability whatever questions you may have.

MR. SEDGWICK: Mr. Millman, I have one or two questions because we covered the subject pretty fully when the Dominion Mortgage people made their presentation. But as to your company, may I take it that you loan only on first mortgage risks?

MR. MILLMAN: Yes. The only exception to that might be a few blanket mortgages where we retain out of the proceeds of our mortgage sufficient to pay a first mortgage not yet due. Until that prior mortgage is paid off it is a second mortgage, but in total it's not more than --

MR. SEDGWICK: Yes. So that in terms of loan length, you are first mortgage lenders?

MR. MILLMAN: Yes.

MR. SEDGWICK: Then are all your mortgages amortized over their term, or do you have what is called a baloon payment at the end of five or fifteen years?

MR. MILLMAN: Until recently we drew most of our convention loans, which we refer to, of course, as loans aside from N.H.A. -- on a five year term, because of the provisions of the Interest Act, which permitted discrimination against the company after five years. We have recently modified that policy and they are now making loans to individuals on a conventional basis, sometimes synchronized for the same term as the amortization, sometimes for ten, fifteen years on a 20-year amortization period.

MR. SEDGWICK: As to the loans that you have that become due in five years or ten years, is it the policy of your company always to renew?

MR. MILLMAN: Yes.

MR. SEDGWICK: You don't insist on this -- I mean presuming your experience with the borrower is consistently good?

MR. MILLMAN: Assuming satisfactory experience, yes.

MR. SEDGWICK: Yes, and satisfactory values.

MR. MILLMAN: Yes, and that renewal is arranged without expense. Perhaps on a large loan, where for some reason we may wish the renewal agreement

registered, and then the only charge that is made is our solicitor's rather nominal charge of drawing the document up.

MR. SEDGWICK: Which would be little more than the cost of the discharge -- it would be a quite nominal fee.

Looking, sir, at your Appendix IV, I see that in -- have you got it, your Appendix IV? -- I see that in 1954 your Cash Advances were 54 million. You paid in loan commissions 240 thousand dollars odd, and in 1963 it was 98 million in cash advances -- almost double -- but you paid only 229,000. Would that be accounted for by the fact that you have so many N.H.A. mortgages on which there is no loan commission?

MR. MILLMAN: No really. The amount of loan commission is not necessarily related directly to the amount of cash advance. The commission is payable on completion and finalization of the loan. Now this 54 million might, to carry this to the extreme, might all have been first advances on loans not closed out until 1965 on which loan commissions paid would be nothing because loan commissions are not payable until the loan is finalized or fully advanced.

MR. SEDGWICK: Yes, but that would catch up with you --

MR. MILLMAN: Yes, it does catch up over the years, but that does account in some measure for fluctuations from year to year.

MR. SEDGWICK: Yes, I understand that, but one perceives from '54 to '58 commissions were considerably more, percentagewise, than they have been in the last two or three years. Is it that you pay a smaller rate of commission? Or don't you pay commission on as many loans?

MR. MILLMAN: Well, we haven't quite figured out why that is ourselves, Mr. Sedgwick, but one thing that contributes to that is that in the last two or three years many of our loans have been for larger amounts, in amounts such as three or four millions -- and it is a scaled commission.

MR. SEDGWICK: Oh. What is your top commission? We have been much interested here in what commission is payable or should be payable for business. What is the top percentagewise that you pay to someone bringing you an acceptable loan?

MR. MILLMAN: We pay 1% up to, or on the first $100,000.00, one-half of 1% on the second and a quarter of 1% on the balance over that. So it is a sliding scale.

MR. SEDGWICK: I see, so that on very large loans -- and many of these would be -- that would, of course, affect the percentage of commission, wouldn't it?

MR. MILLMAN: Yes.

MR. SEDGWICK: I guess that's all for me.

THE CHAIRMAN: Mr. Irwin?

MR. IRWIN: Yes, Mr. Chairman. I

wanted to ask a question relating to this problem of comparing loan situations as between, say, a life insurance company and some other lender. You have, on page 6, described the cost to you of making a loan and servicing it thereafter, and certain charges which are made and paid by the borrower at the beginning of the loan. For instance the borrower pays the legal fee and he pays the inspection fee. But all other expenses are borne by the company itself, I understand?

MR. MILLMAN: We don't charge a valuation fee here in Ontario. The only charge to a borrower is really the legal expense of guaranteeing his title and priority of advances and so on. Appraisal -- we do our own appraisals by our own salaried employees and don't charge an appraisal fee.

MR. IRWIN: Then there are two types of charges. There are charges made to the borrower at the beginning of the loan, such as the legal fee, and then there are all the other costs which are borne by the company and not charged to the borrower directly. Your stated rate of interest on the loan then, say 7%, would be intended to include covering such servicing costs?

MR. MILLMAN: Well, not specifically, no, because --

MR. IRWIN: In other words you charge 7% to recover your servicing costs?

MR. MILLMAN: Yes, in that sense.

MR. IRWIN: Some submissions that have been made here claim the rate of interest that they charge has to be, or the finance charge that they make,has to be as high as it is to recover their administrative costs. And the argument is put forward that it would be incorrect to make a calculation in terms of percent per annum which includes those administrative charges. But this is not true in your case. You are stating a rate percent per annum which does include the administrative charges?

MR. MILLMAN: Yes, I would say so.

MR.IRWIN: Can you see any distinction between what you and what other people have said?

MR. MILLMAN: I'm not certain that I have clearly in mind what type of situation you are referring to other than -- of course, I think I would prefer to talk only for ourselves. We feel that the lower we can keep our administrative costs the better the overall picture of the company's affairs is and that reflects all down the line to policy holders' dividends, etc.

MR. IRWIN: To put it another way, do you think it would be a desirable thing from your point of view and from the point of view of the borrower if you, let's say you make the loan at 5% and then you add 2% to cover expenses. Do you think that would be a sound approach to the loan contract?

MR. MILLMAN: I don't think we would want to do that. I can't conceive of our operating

on that basis. We prefer this --

MR. IRWIN: I think the point I am trying to make here is that when you state a rate of interest you arrive at that rate because your administrative costs are at least X -- in other words, if your administrative costs went up presumably you would raise the rate.

MR. SEDGWICK: I was going to mention, Mr. Irwin, because you may have looked at Appendix IV -- correct me if I am wrong -- taking the last year, your administrative expenses are approximately 1% --

MR. MILLMAN: .31.

MR. SEDGWICK: Yes. So that if you were getting 7, your pure rate -- I think that's what Mr. Irwin is driving at -- would be 6.69, isn't that right?

MR. MILLMAN: Yes, I --

MR. SEDGWICK: Yes, that would be your pure interest.

MR. MACDONALD: On general principle -- we're back to our old problem in this Committee as to whether or not there is any difficulty in stating the rate of interest which includes all costs?

MR. SEDGWICK: Yes, it does.

MR. MACDONALD: Your practice suggests there is no difficulty and it is desirable, from your point of view --

MR. MILLMAN: (Inaudible)

MR. MACDONALD: We will pursue it

with them.

MR. IRWIN: One further step along that way, is that there other charges which are charges to the borrower, legal fees, for example. We might just restrict it to the legal fees. Why not throw those in to the total Appendix IV as well and this figure then becomes 33% -- I don't know, something like that. Then when you state a rate that's all the borrower is interested in. He's heard the rate and makes the loan and that's it. How do you distinguish between those charges which you do charge the borrower and those charges which, in effect, are included in your rate?

MR. MILLMAN: Well, solicitor's costs are not our charges.

MR. IRWIN: How do they get it from the appraisal that you do? What are they paid for --

MR. MILLMAN: Well, I think the solicitor's charges are charged by the solicitor, a solicitor, for searching the title and giving a certificate that the owner has proper title to his property. That is charged to the loan for convenience. We have had situations where the borrower has insisted upon receiving the full $10,000.00 on a $10,000.00 loan and giving us back a cheque for the amount of the solicitor's costs and that is really what the solicitor's charge is.

MR. MACDONALD: Is the solicitor designated by you?

MR. MILLMAN: Yes, it is.

MR.MACDONALD: We sometimes get into a discussion of this very complex issue of conflict of interests. If the solicitor is drawing up the deed, which is to protect the interests of the borrower, it looks a little strange that he is your designee.

MR. MILLMAN: Well --

MR. MACDONALD: I think your case for an extra charge is if the borrower, in effect, says, "Here's my lawyer, he's searching the deed, he's making certain that my interests are being protected".

MR. MILLMAN: He really isn't. He's protecting, he is protecting his interests but incidentally at the same time he's protecting the borrower's.

MR. MACDONALD: Isn't this where, from a legal point of view or from the technical point of view, it's rather difficult?

MR. MILLMAN: Well --

MR. MACDONALD: There is a point of question?

MR. MILLMAN: Yes, there may be. I think really what is said to him is that as part of borrowing this money you have to prove proper title, priority of mortgage, etc., etc., to our satisfaction. And we are satisfied that that was done through a solicitor.

MR. MACDONALD: He's working for you but he's paid for by the borrower?

MR. MILLMAN: He's working for the borrower too, protecting the borrower by the fact that it's his house, and primarily for his protection.

MR. MACDONALD: I don't know how important this point is --

MR. SEDGWICK: Percentagewise it doesn't greatly matter. If you are borrowing $15,000.00 and the legal fees are, shall we say, $150.00 and you amortize that over the term of the mortgage, in percentage terms it's minuscule. I can only say it's an immemorial practice that the borrow pays the cost to certify title just as he pays the cost of the survey, which is for his protection too, to make sure his house stands on the plot that he is buying. He pays that too.

MR. MILLMAN: Well, yes, but he doesn't pay that through the lender always. Sometimes he --

MR. SEDGWICK: Yes, many times he has a survey which you will accept.

MR.MILLMAN: That is true.

MR. IRWIN: Mr. Chairman, may I pursue this for just a moment. It may be traditional for legal fees to be paid the way they are, but from the point of view of the contract between the borrower and the lender, does it really make any difference to you if -- you might describe to the borrower exactly what happens, but -- it really wouldn't make any difference seeing as you are going to largely absorb the cost anyway in your stated rate -- supposing

your stated rate was 7% plus legal fees, it wouldn't really make much difference if you said it was 7 1/8 including the legal fees?

MR. MILLMAN: Well --

MR. IRWIN: If all the costs were included in the stated rate -- whatever that stated rate may be?

MR. MILLMAN: Well --

MR. IRWIN: Would there be any objection to doing that?

MR. MILLMAN: I don't -- I'm not quite sure if I understood you correctly.

MR. IRWIN: Really what I'm getting at is this. In other situations that have come before the Committee, say a mortgage situation, and the lender says, "I will loan you $10,000.00 and the rate will be 7%, but I'm going to charge you legal fees, inspection fees, bonus, commissions, administrative charge, this, that and the other thing", and the guy ends up with $8,000.00 that he actually gets in hand and he pays back ten at 7%. Now the problem is what real rate of borrowing money is the man paying. He doesn't know. Now, it seems to me we can resolve this question if what is to be covered by the stated rate -- the borrower is at a loss in the lending situation. So that if you, for example, who include most of your charges in the stated rate, included all of your charges in the stated rate, and that became the practice, for everybody, then the borrower is able to

compare, when somebody says, "I will loan you $10,000.00 at 7%", and somebody else says, $10,000.00 at 15%, he has something to compare. That's why it does seem to me to be important to establish whether there is any reason why you should not include all charges and set your rate accordingly. Then there would just be one contract, one rate, one amount. Would you see any objection to so doing?

MR. SEDGWICK: It sure would make the mortgages very complicated, there would be six plus a fascinating fraction. Because if you take a thousand dollar mortgage and you divide it by the term and add it to the interest, you get the interest rate as being 6. point something, something, something, which would make the computation infinitely more difficult.

MR. IRWIN: I make this point though, Mr. Sedgwick -- when you get the fraction of three and four and five and ten percent, then it does become very significant.

MR. OLIVER: Well, the legal fees would vary, wouldn't they?

MR. MILLMAN: Yes, that's true.

MR. OLIVER: Yes, depending on the amount of work to do and depending on the size of the loan.

MR. SEDGWICK: It would be very difficult to do and the man would still pay them. Whether he pays them the cash at the time or as a

deduction from the loan or amortized over the term of the loan as additional interest, you would pay them just the same.

MR. MACDONALD: Mr. Chairman, I don't want to pursue this unduly, but my questions weren't directed to the amount involved at all. I agree that it is a small amount, but I can think of a legal firm that got a considerable amount of unfavourable publicity in the Province because they were solicitors for a construction company and when it became known that they were also solicitors for the prospective buyers of this construction company (rest inaudible). Now, if the lawyer is the designee of the company, just to pursue the theory back of Mr. Irwin's case for a moment -- if he is a designee of the company, the company says, "I will charge you 7.003% and that means it covers everything including the lawyer". I think in principle it would be better because he is working for the company and if he has to make a choice between working for the company and working for the prospective borrower, he is working for the company. They designated him.

MR. MILLMAN: That is true.

MR. WHICHER: You couldn't give the borrower a choice of three or four lawyers? Like for example, you give the borrower an opportunity to insure with maybe fifty different insurance companies -- you give him his choice in that.

MR. MILLMAN: That's not uncommon

practice, sir, to have a half a dozen lawyers in -- well, two or three lawyers where --

MR. WHICHER: Yes, I think that would take some of the sting out of it, if they had a choice.

MR. ROWE: (Inaudible) Do you see anything that would really be hard to do?

MR. MILLMAN: Well, I think it would be, from Mr. Sedgwick's point of view, it might be acceptable to --

MR. WHICHER: You see, though, the thing is it may be difficult to do, but it may be necessary to protect the public when somebody is paying a $2,000.00 bonus for a $10,000.00 mortgage. I know this isn't done by yourself, but (rest inaudible)

MR. MILLMAN: Well, I don't think we can do it.

MR. ROWE: I can see one objection to including the legal fee at the beginning. Say you amortize that over the normal period of 20 years and it's worked out assuming the mortgage will be paid off over the 20 years, and then it's paid off at the end of ten years, it would be rather difficult to figure out that one shot payment and figure out exactly how much it would be at the end of ten years. (Rest inaudible)

MR. WHICHER: (Inaudible)

MR. MACDONALD: But actually, Mr. Chairman, our problem in the Committee is that the

real difficulty in disclosure of costs doesn't arise with the conventional companies, it arises in the infinite range of companies in the field. It has been suggested that they are fringe companies. I thought some of them are fringe, but some of them are pretty respectable to be fringe. If we, at the legislative level feel that to cope with the so-called fringe operators who have all these extra charges, are looking for something that could be put in a statute, it's going to be difficult for us to say that this applies to this company, which has varying degrees of fringe fall, but it doesn't apply to you. This is something of a problem for the Committee to go over to consider recommendations.

MR. WHICHER: It might be better to charge 8% instead of $7\frac{1}{4}$ and include all the charges. A fellow at least would know exactly what he is going to pay. Now maybe, as Mr. Sedgwick suggested, it should be a tenth or a twentieth or something, but then the fellow knows what he is paying.

THE CHAIRMAN: Mr. Bukator, do you have a question?

MR. BUKATOR: Yes. If we are thinking about the fringe ones who charge $87\frac{1}{2}\%$ that we found here last year. They are fringe. (Laughter).

The question I would like to ask is what is conventional loan interest rate now? About 7?

MR. MILLMAN: Seven or 6 3/4, particularly with larger loans.

MR. BUKATOR: N.H.A. would be what?

MR. MILLMAN: Six and a quarter.

MR. BUKATOR: Six and a quarter. This 2% that you add on for insurance on an N.H.A. for the gross amount, did you people ever calculate the difference between a conventional and an N.H.A. with adding the 2% to N.H.A. and then charging interest? Is there that much of a spread? I was wondering if actuaries who are so keen with their pencils had calculated that too? N.H.A. is the mortgage which we all look for, naturally, but a conventional I think is also a good mortgage at 7% or whatever the case might be if you are not paying the 2% as you do in an N.H.A. I was wondering what the spread was between the 6¼ and 7, actually. Does anybody in your group know that? I don't suppose it would be too hard to get if we wanted it, some particular group could calculate that very quickly for us, I imagine, Mr. Taylor. I have so often heard so much about the N.H.A. because they seem to be quite -- but with the 2% added to the N.H.A. and it comes to 6½, let's say, I don't think the spread between that and the 7% is so great or anything at all. You don't have the answer to that?

MR. MILLMAN: I'm sorry, I don't.

MR. BUKATOR: In mortgage loans, is the charge the same for anywhere throughout the Province?

MR. MILLMAN: The charge?

MR. BUKATOR: Interest charge.

MR. MILLMAN: Interest charge? There

are one or two locations where rates tend to perhaps be steeper. One is (rest of sentence drowned out by ambulance in background).

I know of no -- in first mortgage rates -- a spread of more than a quarter of 1% because of geographic location and then almost invariably -- I would say generally, for all practical purposes --

MR. BUKATOR: The spread is no more than a quarter?

MR. MILLMAN: I would think not.

MR. BUKATOR: You see, in earlier testimony we have had indicated to us that for any areas outside the metropolitan area the rate was even as much as 1% higher. And it seems to me there is an inequity in this. The people are borrowing back their own money to the extent that they are borrowing from a pool that the people of the Province collected, to which they are contributing. And if they happen to live in northern Ontario their charge is more.

MR. MILLMAN: Well, we haven't been -- actually you are asking the question of the wrong company -- we are active in Sudbury and up there we are getting 7¼, occasionally 7½% and down here we are getting 6 3/4 and 7. In our own experience, and I can only speak for that, I think it's about one half of 1%. I wouldn't like to say that this is typical of the industry because we are not too active in the smaller places.

MR. BUKATOR: In the areas where you don't go in.

MR. MILLMAN: Yes. Several in the smaller towns in around western Ontario we don't go in, because it's physically impossible to service every place, that's all. It's not discrimination against anything. It's a physical impossibility to cover the whole of Canada, every town and village.

MR. BUKATOR: Well, if a big company like you can't service them, how do you expect the little company -- (rest inaudible).

MR. MACDONALD: Mr. Chairman, I would like to ask a question in reference to the third paragraph on page 8, where you state: "On conventional loans the only amount which is in the nature of a "bonus" is the collection of a charge when the borrower wishes to repay prior to the maturity date of the mortgage". I assume from that that all of your mortgages do have a clause which permits payment in advance?

MR. MILLMAN: No, they don't. But we feel from a public relations point of view if we are asked to accept that money and there is a good reason for doing it, that we should, generally speaking, be prepared to cooperate given proper reimbursement for the cost for reinvesting the money.

MR. MACDONALD: What would your charge be?

MR. MILLMAN: Well, we have a -- before I get on that, sir, I would just like to say

that we would, if one of our borrowers wrote asking us to accept payment in full of their mortgage with no reason, we would refuse. If he came back and said, well, if you don't -- on the grounds that there is no provision in the mortgage -- if he came back and said, "If you don't, you are going to block a sale. I have this house up for sale and they need an 80% loan which I know you can't give them", and so on, then we usually take our money. But we feel that we are entitled to an additional charge to cover the cost of reinvesting that. Probably, or possibly, at a lower rate of interest. And the lower rate of interest, not for one year, but for the unexpired term of the mortgage.

MR. MACDONALD: For practical purposes, mortgages become open at the end of a five year period? Is that true?

MR. MILLMAN: No, I don't think that's quite true. Under the Interest Act, any loan to an individual can be paid off any time after the fifth year, as I understand it, with a bonus of three months' interest. That's not at five year intervals, that's any time. It may be paid in the sixth year or seventh year. But loans to a corporation for a longer period than five years cannot be paid off except under the terms of the mortgage contract.

MR. MACDONALD: Is your charge in the range of three months' interest?

MR. MILLMAN: Well, our charge, and this is a guide only, we vary it according to the

circumstances and the worthiness of the case, but our usual scale of bonus for prepayment ranges from 4% during the first year -- now that is, we have had no chance to amortize any of our acquisition costs and we have to turn around and start things all over again. We charge 4% the first year, 3½ the second year, 3 the third, 2 the fourth and 3 months' interest the fifth. Now that's, as I say, not rigid by any means.

MR. MACDONALD: That's three months of the unpaid balance?

MR. MILLMAN: Yes. All these percentages are of the unpaid balance.

(Rest of belt inaudible)

MR. MILLMAN: The contract reads five, but at the discretion of the company it can be changed to ten.

THE CHAIRMAN: Mr. White?

MR. WHITE: Mr. Chairman, page 9, the second last paragraph. It says, "The borrower does not pay the insurance premium immediately, but it is an addition to his long-term liability. In the situation where you have a builder borrowing under N.H.A., wouldn't this insurance be charged, deducted from the (rest of sentence inaudible)

MR. MILLMAN: Well, it's paid insofar as CMHC is concerned immediately, but I think the inference here that the borrower does not pay that immediately. It becomes part of the total indebtedness that is amortized over 20 or 25 years.

MR. KERR: (Inaudible) I think that part of the huge premium is this charge deducted from the loan he eventually gets. (Rest inaudible)

MR. MILLMAN: What this is intended to indicate here is that just under the circumstances that you have outlined, the maximum house loan, for instance, on a four family house is $58,600.00 and the 2½% premium brings that up to 59,012.00, I believe it is, or some such figure. Well, I come along as a purchaser of that house and I assume the mortgage of 59,012.00 which includes the premium of $312.00 and I have that entire 59,012 including the 312, amortized over 25 years, so that from my point of view -- (Next section of belt inaudible)

MR. KERR: Do you do any lending under maximum loans, where your company, I assume, would lend up to 66 2/3% and then possibly some other company would eventually bring the amount of the loan to something over 80% and then you charge, I think, a quarter of a percent interest over the conventional rate?

MR. MILLMAN: We are not as yet operating under that. We have been approved as a lending institution by the Insurance Company of Canada who is insuring the top proportion of loans, but we have not operated under that.

MR. KERR: It's a very convenient thing because you are eliminating the necessity to arrange second mortgages at a very high interest rate.

MR. MILLMAN: I think it was conceived probably with that in mind.

MR. BUKATOR: Are there any areas where -- to follow up what the gentleman just said -- are there any areas where you approve -- I know you are not in the business yet, but an 80% mortgage on old homes? Do you have mortgages on old homes?

MR. MILLMAN: We don't certainly restrict our mortgage lending to new houses. We certainly don't like to -- and this is by no means inflexible, but we don't like to make loans on homes over 20 years old.

MR. BUKATOR: So there are companies now that are giving 80% on old homes?

MR. MILLMAN: We are not operating under that scheme as yet.

MR. REILLY: Mr. Chairman, I'd like to pursue this for just a moment. Is that because you are not listed under the trust organization, under the Trust Act, and you can be restricted to 66 2/3%. Is that because the London Life and other insurance companies don't come under that Act? Are you restricted to 66 2/3rds?

MR. BUKATOR: As I understand it Mr. Millman says that they are about to enter or close to it, but they are not doing it yet.

MR. MILLMAN: Yes. Under this scheme that you have referred to, in lending.

THE CHAIRMAN: Anyone else?

Is Mr. Tuck still here?

Who has the next brief which you wish to hear?

MR. KROPF: If the Committee has time, we would appreciate it if Mutual Life of Canada could present their brief in view of the fact that they did come from out of town.

THE CHAIRMAN: That was my understanding. Well, they can go ahead now.

MR. REILLY: Would the government part with an air conditioner for this room for a couple days a month?

THE CHAIRMAN: Well now I should tell the Committee that last year I endeavoured to have one installed here and we didn't get very far. We suffered through this heat all last year and it looks as though we may have to be doing the same thing again this year. However, I will make a renewed effort to see if we can. Even a fan would be a little help. When you consider the number of meetings which are held here in these rooms, I don't see why we haven't got an air conditioning unit here which is in operation all year around. Especially when you get a hundred people or so in here and they are all smoking, it's pretty damned uncomfortable.

MR. SEDGWICK: Especially cigar smokers.

THE CHAIRMAN: Would you like to introduce yourself to the Committee and carry on?

MR. KROPF: Thank you, Mr. Chairman. I am D. L. Kropf of The Mutual Life Assurance Company

of Canada.

The Company, Canada's first mutual life insurance company, was established in 1869 with its Head Office at Waterloo, Ontario. The first policy loans were granted in 1874. In 1897 the Company led the industry in Canada in including the automatic premium loan provision in its policies.

At the end of 1963 the Mutual Life had insurance in force of $4 billion of which $1.9 million or 48% was on the lives of Ontario residents. Premium income for 1963 amounted to $87 million of which 54% is derived from Ontario. The Company's assets at the end of 1963 stood at $830 million of which 51% is invested in the Province.

THE CHAIRMAN: Mr. Kropf, would you speak up a little. It is very difficult with the traffic here and I am afraid our PA system isn't as good as it might be. It is a little difficult sometimes to hear members of the Committee. Please just keep that in mind.

MR. KROPF: The next page is a list of the officers and directos which I shall not read. Page 3 is a table showing the relationship between policy loans and the assets of the Company for the past 35 years. I think it might be of interest to the Committee to notice that during the depression years there was a high of 21.42% of assets out on policy loans. The low point, prior to the '50's was reached in 1949 and then again during the mild, temporary recession in the mid '50's there is a

high point of 6.03% of assets which has again reduced to the present rate of 5.25.

The next page is a statement of our policy loan account which indicates the amount of loans, money advanced for cash loans and automatic premium loans. The total loans outstanding in the last column will agree with the previous table. Payments on principal and interest, divided into two parts. One is cash paid to the company at end of loans year by year and the other amounts are repayments which result from terminations of policies such as maturities and death claims and cash surrender.

MR. REILLY: Before you change the page, Mr. Chairman, I was wondering how long has this premium automatic loan been in effect?

MR. KROPF: Since 1897.

We included extracts from our policies showing loan provisions. I will read them if you wish, Mr. Chairman. They have been gone over pretty well by others and they are the same essentially.

Page 6 is our policy loan procedure.

The policyholder may secure a cash loan by submitting an application to the Company usually through a Branch Office. A copy of the application is attached at the back of the brief. If the policy is payable to a preferred beneficiary the loan application must also be signed by the beneficiary. The policy may be required for examination at the Branch Office.

I might say that some of our older

policies require that those policies be turned over to the Branch or the Company for examination. Our later policies do not have that requirement.

The cheque is issued at the Head Office of the Company to the policyholder and preferred beneficiary, if any. The cheque is normally mailed to the policyholder on the day following receipt of the application at the Head Office of the Company. Although our policies permit deferment of the granting of a loan, the Company has never taken advantage of this provision.

I might add, Mr. Chairman, that during the period 1929 to 1930 when there was almost a run on insurance companies, there was no deferment other than the fact that the work load delayed the issuing of the cheques at times.

There are no repayment requirements but the policyholder is encouraged to make arrangements for repayment of the loan. The Company will accept payment in full or in part at any time. Periodic payments of any size convenient to the policyholder are accepted. If no payments are made on principal or interest the indebtedness may eventually exceed the cash surrender value and the policy will then lapse.

A statement showing the amount of loan and interest at the policy anniversary is mailed to the policyholder each year. A sample of this notice is also attached. Where a premium is not paid by the policyholder and there is a cash value in the

policy the premium will be charged as a loan in accordance with the automatic premium loan provision. The policyholder is notified, when this has been done, by a special notice of which a sample is attached.

Interest on cash loans is charged from the date the cheque is issued and on automatic premium loans from the end of the days of grace allowed for payment of the premium. While the rate of interest is 6% at present, which is the maximum rate allowed by the provisions of our policies, the rate in effect from April 1, 1945 to September 15, 1956 was 5%. Interest is charged on the unpaid balance only and if not paid is capitalized on the policy anniversary.

Copies of the ninety-fourth annual report of the Company which was mailed to each policyholder, and our ninety-four years statistical record, are appended to this submission.

Are there any questions, sir, I would be glad to answer them.

MR. SEDGWICK: You were here when the gentleman from the London Life made his presentation, were you?

KROPF: Yes, sir.

MR. SEDGWICK: It seems to me in reading yours that your policy or procedure is almost identical to theirs. Is that correct?

MR. KROPF: That's correct.

MR. SEDGWICK: Yes. The only difference between the two might be yours is a

completely mutual company, is it not?

MR. KROPF: That is correct.

MR. SEDGWICK: It has no shareholders?

MR. KROPF: No shareholders, no.

MR. SEDGWICK: Whatever profits there are are divided amongst your policyholders?

MR. KROPF: That's correct.

MR. SEDGWICK: So far as policy loans are concerned, your method of procedure corresponds almost precisely with that of London Life, is that correct?

MR. KROPF: That's correct.

MR. SEDGWICK: So the answers he gave, I take it you would agree with?

MR. KROPF: That's right.

MR. SEDGWICK: That's all, thanks.

THE CHAIRMAN: Mr. Irwin? Mr. Whicher? Mr. Bukator? Mr. MacDonald?

MR. MACDONALD: Do I assume from your comments on page 6 that notwithstanding the revision in the law two years ago that applications for loans must be signed by the preferred beneficiary?

MR. KROPF: If there is a preferred beneficiary, the preferred beneficiary must sign it. But with the coming into force of the amended statutes on July 1st, 1962 there are no preferred beneficiaries on policies issued since that date so a man could borrow on his own signature on a policy issued since July 1st, 1962.

MR. MACDONALD: Just to display

my ignorance, what is a preferred beneficiary?

MR. KROPF: Under the old insurance statutes the preferred beneficiary was wife, husband, children, grandchildren, adopted children and children of adopted children.

MR. SEDGWICK: And then beneficiaries for value also had a preferred position.

MR. KROPF: They have a vested interest actually.

MR. BUKATOR: I can understand that, where the beneficiary for value, because he has an interest in it, but so has the wife.

MR. SEDGWICK: Until 1962. And the sons in their name.

MR. MACDONALD: Do I assume from your presentation that you have no mortgage loans at all?

MR. KROPF: Oh yes, we have mortgage loans, sir, but we understood from Mr. Tuck that our presentation would primarily be for policy loans. If there are any particular questions or points you would like us to deal with on mortgages we will be glad to.

MR. REILLY: Can I come back to the one that I put to the previous witness? What is the rate that you might charge from what is described as outlying areas? The additional rate that you might charge to outlying areas, the hinterlands?

MR. KROPF: That is a question, sir, that I cannot answer since I have had nothing to do

with mortgage loans whatsoever. My part of the business has always been with the insurance end and not the mortgage investments. Sorry I can't help you there.

MR. REILLY: I might be able to help Mr. MacDonald. The Ontario Royal Trust Company charges more money for mortgages right up in the same area.

MR. MACDONALD: That only emphasizes the inequity is all across the board.

MR. REILLY: It costs them more money to operate, greater risk.

THE CHAIRMAN: Mr. White? Mr. Kerr, Do you have any questions?

MR. KERR: No.

THE CHAIRMAN: Well that's all. Thank you very much for reading the brief to us today. We appreciate your being with us.

Gentlemen, that is all we have for this afternoon. We will meet here tomorrow morning at ten o'clock. This meeting is now adjourned. I would ask the Committee members if they would wait or come back in about five minutes.

THE CHAIRMAN: Having a quorum, we will proceed with the 18th meeting of the Committee and we are going to hear first from Mr. G. R. Fraser who is with the Excelsior Life Insurance Company. Mr. Fraser?

Would you proceed with your remarks, please, Mr. Fraser?

MR. FRASER: Mr. Chairman and gentlemen, I have a brief statement relating to policy loans from the point of view of Excelsior Life Insurance Company.

We are a company who was incorporated in 1889 under the laws of the Province of Ontario and commenced to write business the following year. We are now licensed in all ten Canadian Provinces and we write business only in Canada.

In 1963 we issued new insurances totalling \$141 million, consisting of over \$81 million in individual policies and almost \$60 million under group contracts.

At December 31st, 1963 our business in force amounted to \$844 million, of which \$633 million was in respect of individual policies and the remainder in group contracts. Our 1963 premium income was \$17 million, of which \$13 million was in respect of individual policies and the remainder from group and health contracts. Our assets at December 31st, 1963 totalled \$145 million, consisting of \$79½ million in securities, \$50 million in mortgage loans, \$4½ million in real estate, \$3½ million in cash and miscellaneous items and \$7½ million in policy loans.

At December 31st, 1963 the ratio of policy loans to reserves was 6.4%. At that date we had 139 individual policies in force and 18% of such policies had a policy loan then outstanding. The average loan at that date was just below $300.00. We estimate that 40% of the total amount of outstanding loans represent automatic premium loans. The terms and conditions of policy loans are clearly set forth in our policies. Interest on the loan is the only cost to the policyholder and the rate charged may not exceed 6% per annum.

During the period June, 1944 to September, 1952 -- a period of low interest rates -- we charged interest at only 5%. While the rate of interest charged to the policyholder is currently 6%, the net rate which we realize on policy loans after charging administrative expenses is appreciatively less than 6% and less than the net return which we obtain on our total assets in 1963.

We encourage policyholders to repay their policy loans even though they are not obliged to do so. Partial payments of $5.00 or more are accepted either periodically or at the policyholder's convenience. We follow this liberal practice because we believe that policy loans which are not being repaid may eventually cause the policy to lapse.

Our policy loans are a legal investment. We regard them as a service to our policyholders whereby emergency funds can be made available to them with a minimum of inconvenience and at a reasonable rate

of interest.

Furthermore the automatic premium loan feature in our policies serves to extend the period during which the policy may be continued in force thus enabling us to pay many claims which we would otherwise be unable to pay.

I will be glad to answer any questions.

THE CHAIRMAN: Thank you very much, Mr. Fraser. Mr. Sedgwick, do you have any questions?

MR. SEDGWICK: Mr. Fraser, I shall be very short. You do not say anything about the mortgage investments of your company. May the Committee take it that your company does invest in first mortgages on real estate?

MR. FRASER: Yes, we do. I'm not in the mortgage end of the business so I have not commented on that.

MR. SEDGWICK: I see. Are you reasonably familiar with it? What I was going to ask you is whether there are any significant differences between the policy of your company in regard to first mortgage investments and the policies of other companies such as the London and the Mutual whom we heard yesterday?

MR. FRASER: My Treasurer is here who is familiar with that. May I ask him that?

MR. CARNAGIE: No significant differences.

MR. SEDGWICK: No significant differences. Your rates would be comparable, I assume, and

are your mortgages --

THE CHAIRMAN: Would you care to come up closer to the microphone? We can't pick it up on the tape otherwise.

MR. CARNAGIE: There are no significant differences in policy. We don't invest on a countrywide basis in mortgages.

MR. SEDGWICK: Do you confine your business geographically?

MR. CARNAGIE: Yes, to certain segments, such as the area around this part of the world, Winnipeg, London, Montreal and Vancouver.

MR. SEDGWICK: Metropolitan areas.

MR. CARNAGIE: On occasion we would go as far as Whitby or Oshawa, Hamilton and other parts, but basically when I say metropolitan area I mean the area which can be conveniently served from our home office at Toronto.

MR. SEDGWICK: And as to amortization, are your mortgages amortized over their life?

MR. CARNAGIE: They are conventional mortgages, normally 20 or occasionally 25 years, N.H.A. mortgages, 25 years or occasionally 30 years.

MR. SEDGWICK: I see. Coming back to Mr. Fraser, as to policy loans, Mr. Fraser, I see from this Canadian Life Insurance Facts that the average ratio across Canada is 5.4% of reserves and I see that your own company's is 6.4. Is there any significance in the fact that your company's ratio is about one point higher than the average?

MR. FRASER: I don't think there is any real significance.

MR. SEDGWICK: I assume it does vary from company to company, does it?

MR. FRASER: Yes, it does.

MR. SEDGWICK: A point or a point and a half range?

MR. FRASER: That wouldn't be unreasonable.

MR. SEDGWICK: I think those are the only questions I want to ask.

THE CHAIRMAN: Mr. Irwin?

MR. IRWIN: Mr. Chairman and Mr. Fraser, forgive me if I just want to cover about the same ground as I covered in regard to London Life. First in regard to policy loans, in your case, as in the case of London Life, and generally the companies in the Association, that the percentage that policy loans represent to the total of policy reserves is fairly low --

MR. FRASER: Yes.

MR. IRWIN: And the rate of interest charged is fairly low. What would be your view as an actuary if people suddenly became aware of this vast abundance of credit which they have readily available to them if there is trouble. If the demand for policy loans increased to 60% of reserves, would you consider that some action might have to be taken to discourage further borrowing on policies?

MR. FRASER: Well, I don't think that

is likely to happen. I think that people are reluctant to borrow on their insurance. They are carrying the assets they have created for their beneficiaries and for other purposes. I think those of us who were in the business in 1929 saw a pretty heavy run on policy loans. I don't think it ever reached the figure that you mentioned.

MR. IRWIN: Consider it adverse -- if by their own nature the policy holders started pushing the thing upwards --

MR. FRASER: I think that there was mention in the London Life brief that policy loans do have a slightly adverse effect on the operations of the company and if they reached the proportion of 60% that you mentioned it would probably be serious.

MR. IRWIN: In other words you might feel that you would have to discourage them in some way to prevent a further extension of that.

MR. FRASER: I don't think it will ever happen.

MR. IRWIN: You think the reason it doesn't happen is that people have a psychological attitude towards borrowing on their policies because they don't want to --

MR. FRASER: I think that's the case, yes.

MR. IRWIN: In regard to mortgages, perhaps Mr. Carnagie might want to comment. Yesterday, in regard to the London Life, it was brought out the cost of servicing and acquiring a mortgage loan was

borne by the company and not recovered from the borrower. But in the case of legal expenses and, I believe, inspection fees, they were recovered from the borrower and the matter which I am interested in, is there any reason why all the costs should not be borne by the company and the rate increased accordingly so the borrower deals only with one percentage rate which covers the entire cost of the loan.

MR. CARNAGIE: Well, Mr. Irwin, our feeling is that the out-of-pocket costs, which is the type these legal costs are, could be expressed as an interest rate. I think you use the term "effective annual rate" -- if that means what I think it means, this could be expressed. I would be unhappy at the moment, without further study, if it was proposed that we should actually collect these costs over the term of the mortgage for two reasons. One is that we would be losing interest if we simply divided up the legal costs in some manner so that they represented a given percentage of the amount outstanding every year. We would be losing interest on that. We would be calling these costs interest when in fact they are costs that we make at the time. This doesn't sound like very much. On a $10,000.00 loan the cost might be perhaps a little under $200.00, but if you multiply all our loans and add up the total it might be several thousand dollars in a given year added to the amount that we would then give a spread in collection over many years. This, I think, would be

undesirable and probably would eventually have to be reflected in higher rates.

MR. IRWIN: Yes, I realize that.

MR. CARNAGIE: The other point is, of course, that very many mortgages are paid off well before maturity. The mortgage loan which actually runs to maturity is a fairly rare thing. An element of cost which we have actually paid out -- because we would, the lawyers have to be paid, we would have to pay them and then recover from the borrow over a period. If the loan is paid off in, say, seven or eight years, I think some complicated mechanism would have to be devised by which we could recover these costs. I think we would have no objection whatever to expressing these costs in terms of an increment to the rate. And this, I think, could probably be quite easily done.

MR. IRWIN: You wouldn't find any mathematical problem in making --

MR. CARNAGIE: I don't think it's a mathematical problem. I think it might possible be more account-time-consuming to arrive at this figure. I don't know yet. One difficulty does arise that the legal costs or the actual fees are based on tariff and can be calculated. There are certain out-of-pocket expenses which the lawyers pay. Now these, at the time we commit on a mortgage loan and say what the rate is going to be, are unknown. The percent would be very fractional, but nevertheless we couldn't be exact. If we are making a statement

which has got to stand up, we would be a little unhappy, I think, about making a statement which we knew was not exact. We could possibly state, with some confidence, that the effective rate would not be in excess of something or other, but we couldn't be quite exact unless we were prepared to absorb certain out-of-pocket expenses ourselves, and frankly we don't quite see why we should.

MR. IRWIN: We know, let's say mathematical error or misrepresentation by making a company --

MR. CARNAGIE: Well I would hope that we would not make misrepresentations based on miscalculations.

MR. IRWIN: Is there a technical reason why it could not be stated as a rate of interest?

MR. CARNAGIE: None that I can see. This is something we have not tried or fully explored even. But I can see no reason why our mathematical calculation shouldn't be perfectly exact.

MR. IRWIN: Thank you very much, Mr. Carnagie.

THE CHAIRMAN: Mr. Whicher?

MR. WHICHER: I was going to ask -- on a policy under $1,500.00, let's say, do you figure cash value. Do you pay interest on that or money to the policyholder?

MR. FRASER: Monies are brought forward and interest rates --

MR. WHICHER: Yes, but I mean is there

an interest rate paid on that money?

MR. FRASER (Inaudible)

MR. WHICHER: If a fellow had a $2,000.00 cash value on his policy and he borrowed $1,000.00, would that effect the dividend rate of the policy the next year?

MR. FRASER: (First part inaudible) He's not paying anything extra other than 6% if he borrows $1,000.00. His dividends will increase each year on the policy.

THE CHAIRMAN: Mr. Bukator?

MR. BUKATOR: No, I don't have any questions.

THE CHAIRMAN: Mr. Lawrence?

MR. LAWRENCE: Nope.

THE CHAIRMAN: Mr. Oliver? Mr. White? Mr. MacDonald?

MR. MACDONALD: What is the spread between your yield on policy loans and your general average yield?

MR. FRASER: As far as I can determine it is about 6.1%. It's very high.

MR. MACDONALD: Much higher than the others?

MR. FRASER: Yes.

THE CHAIRMAN: Mr. Kerr?

MR. KERR: Do you have any idea of the approximate percentage of policy loans that are repaid eventually?

MR.FRASER: You mean by cash?

MR. KERR: Well no, what are the terms or conditions that the company may have. I notice you have a reference here that you encourage policyholders to repay their loans and you have partial payment provisions.

MR. FRASER: Well, a lot of policy loans terminate because the policy terminates, or is surrendered. And the policy loans which are repaid, it's sort of a well known clause they are liable to borrow again. I haven't any hard figures.

MR. KERR: As long as there is some premium credit with regard to the debt of the policyholder, will the policy -- the policy will be paid less than the amount of the loand, is that it?

MR. FRASER: Yes, as long as there is some equity left.

MR. KERR: Is there any provision or programme by your company or salesforce in the event that a policyholder with your company, for example, has borrowed the maximum amount on his policy whereby you attempt to explain the danger, shall we say, of having a proper insurance plan?

MR. FRASER: Well we do that constantly. We point out that the policy is in danger of running out. We use as much pressure as we can to reduce his amount --

MR. KERR: You have the business of protection as well as providing emergency loans?

MR. FRASER: Oh, yes.

THE CHAIRMAN: Mr. Reilly, do you have

any questions?

That's all then, gentlemen. Thanks very much, Mr. Fraser, for being with us this morning. We appreciate your coming.

We will now call on Mr. J. H. Wainwright of the Canada Life Insurance Company.

Mr. Wainwright, you don't have a brief?

MR. WAINWRIGHT: Not a brief, no. We are prepared to answer any questions.

THE CHAIRMAN: Do you wish to make a statement to the Committee?

MR. WAINWRIGHT: A few preliminary remarks.

THE CHAIRMAN: All right, fine.

MR. WAINWRIGHT: General interest facts. Canada Life has had policy loan clauses in its policies since 1890. The interest rate generally from then until August 1914 was 5½% and since August, 1914 has been 6%. Our policies have always provided that the interest accrues on a day to day basis. There are no other charges except for a while on automatic premium loans there was an extra charge of 1% for the cost of handling. That extra charge, although still existing in old policies, was discontinued in 1935 so that on both cash and premium loans the interest rate is 6% per annum on a day to day basis.

I notice that in Canada our policy loans in relation to policy reserves was 4.71% in 1954

and at the end of 1963 were 3.7%. I have no explanation for that decrease except the general observation that I think policy holders were charged policy loan provisions as a benefit under their policies being used only if a need for that benefit arises in the nature of an emergency. I don't think they regard it as an ordinary borrowing medium.

Those are my own view and observations after being in the business for a great many years.

The 6% gross rate on policy loans nets us, at present, 5.06% after deducting policy loan expenses. Our net rate earned on our assets last year was 5.44%. Does that answer questions?

THE CHAIRMAN: Of course there must be a lot of policyholders who are using their policies for the purpose of borrowing from the bank or elsewhere?

MR. WAINWRIGHT: We run about 1,500 policies a year assigned to banks in Canada for lending purposes. That, to my mind, is not a very large number.

THE CHAIRMAN: Surprisingly small.

MR. WAINWRIGHT: I'm sorry I can't tell you how many policy loans by policyholders we have in total. And a great many of those loans at banks are paid off and a fair number of releases. So that borrowing does go on. I think in that case why they are using their policy as collateral and going to an ordinary lending institution. Insurance

companies, except for their mortgage activities, are not lending institutions. They are service institutions and protection institutions.

THE CHAIRMAN: How does your company rate volumewise in Canada?

MR. WAINWRIGHT: I think we are maybe fourth. Now these are just recollections. I think there are three companies,on business in force. On assets I think we may be third or second.

THE CHAIRMAN: And what about in volume of mortgage business?

MR. WAINWRIGHT: I couldn't answer that. The mortgage officers are here and they will be glad to.

THE CHAIRMAN: Mr. Sedgwick?

MR. SEDGWICK: I was only interested in one thing. You said your ratio of reserves to policy loans is 3.7?

MR. WAINWRIGHT: That's correct, sir.

MR. SEDGWICK: Apparently in 1952 the Canadian average was 5.4 and the Excelsior Life was 6.4. Do you know of any reason why yours is lower?

MR. WAINWRIGHT: No, I have no explanation. There is one observation I would make, first I would like to be sure that the ratios are worked on the same basis. Some of the ratios I listened to, yesterday and today, were percentage of loans to total assets.

MR. SEDGWICK: No, the statement in

the little booklet --

MR. WAINWRIGHT: That's loans to policy reserves, yes, okay. Then they are on the same basis then. No, I have no explanation.

MR. SEDGWICK: It is significantly lower.

MR. WAINWRIGHT: Yes.

MR. SEDGWICK: 3.7 instead of the national average of 5.4.

THE CHAIRMAN: Mr. Irwin, do you have any questions?

MR. IRWIN: Well, just the same old question. Mr. Wainwright, have you any comment on the possible idea of including all charges, including legal charges, in a stated rate?

MR. WAINWRIGHT: On mortgages?

MR. IRWIN: Yes.

MR. WAINWRIGHT: No. I don't think I'm in a position to comment on the mortgage business.

MR. KENNY: Mr. Chairman, I wonder if I might make just one comment on the question of the variations in the percentage of policy loans to reserves. In my estimation it can be possibly accounted for by virtue of a different market. For instance, Canada Life, say, has an average size policy which is considerably larger than the average size policy of Excelsior Life. The probable reason for that is that Excelsior Life may have a larger amount of its savings in perhaps slightly lower

economic stratum than the Canada Life might have. I know through the years we have sold insurance, a large percentage of it might be what you would term today as the blue collar market, rural market, but perhaps a smaller percentage of our business is in the higher level market, large business insurance cases, very large insurance policies; and I would think there is a demand in our market for policy loans on an emergency basis might tend to be greater. For instance, the large policy holder would have a tendency to use his policy as collateral at a bank. Our policyholder, in all probability, would come directly to his agent or to the branch in his local city in order to get emergency money. Now that is only a theory, but it seems to me that it does hold some water.

THE CHAIRMAN: Thank you. Mr. Whicher, do you have any questions?

MR. WHICHER: No, thank you.

THE CHAIRMAN: Mr. Bukator? Mr. Lawrence? Mr. Oliver? Mr. Letherby? Mr. MacDonald? Mr. Kerr? Mr. Rowe? How about you, Mr. Reilly?

MR.MACDONALD:Mr. Chairman, in the original Association brief one of the groups had several representations to make in addition to mortgage brokers briefs --(rest of statement inaudible)

THE CHAIRMAN: Mr. Tuck, would you mind coming up to the mike?

MR. TUCK: Mr. MacDonald, the reference in our brief was to the fact that we

anticipated the London Life would wish in its brief to deal with mortgage interest. I'm not sure how we phrased it in the brief, but that, I think, is the passage you refer to.

THE CHAIRMAN: Are there some further questions you wanted to ask about mortgages?

MR.MACDONALD: (Inaudible)

THE CHAIRMAN: Well thanks very much for being with us this morning, Mr. Wainwright. Is there someone here, Mr. Tuck, from the Empire Life Insurance Company?

MR. McINNIS: Mr. Chairman, we have no formal brief. The brief submitted by the Life Officers covers our policy loans procedures perfectly all right.

THE CHAIRMAN: Would you care to make a preliminary statement or just proceed with questions that the members might have?

MR. McINNIS: Well, our policy loans at the present are 6.6% of our assets, which would be a little over 7%, working on a reserve basis. Now the net rate earned on policy loans was possibly 5.18% and our net rate on all our assets was 5.68%, about 1.5% difference in there. Now, I don't think I have anything further to add.

MR. SEDGWICK: You were here when the others gave their evidence, I take it?

MR. McINNES: Yes, sir.

MR. SEDGWICK: Would you agree with the answers they gave in connection with policy loans?

MR. McINNES: Yes, I do.

MR. SEDGWICK: I see your ratio is a little bit higher than Excelsior -- 6.6 -- I don't suppose that has any significance, does it?

MR. McINNES: None at all, no, that we can ascertain.

MR. SEDGWICK: I have no questions.

THE CHAIRMAN: Mr. Irwin, do you have any questions?

MR. IRWIN: Just the same one. Would you agree with the view of the others that you could possibly express all charges as a stated rate?

MR. McINNES: It would be possible, yes.

THE CHAIRMAN: Mr. Whicher, any questions?

MR. REILLY: Before you leave that point, Mr. Chairman, I know Mr. Irwin is rather anxious to get an expression of opinions. Do you think it is desirable to do that, to include those charges as part of interest?

MR. McINNES: I would personally rather not. First of all the legal fees and evaluation is strictly a one time pay.

MR. REILLY: It's part of the cost of obtaining money?

MR. McINNES: Personally, no.

THE CHAIRMAN: Mr. Whicher? Mr. Bukator? Mr. Lawrence? Mr. Letherby? Mr. MacDonald?

Mr. Ross?

What is your name again?

MR. McINNES: Mr. McInnes.

THE CHAIRMAN: Well, thank you very much, Mr. McInnes for being with us this morning. We appreciate your coming.

Well, gentlemen, that terminates the briefs that we have this morning. We will have a ten minute recess and I will ask the members to reconvene here.
